



Introduction: Historical Setting of the Worldly Philosophers

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INTRODUCTION

Historical Setting of The Worldly Philosophers

1. There are three ways of organizing society: Tradition, Authority, The Market

Man is a social animal, yet society consists of self-seeking individuals. How is this tension resolved?

- a. Tradition. One is born into one's status, and the *family* ~~metièr~~ *metièr* that goes with it. (Note how many Eng. & Am. names come from *metièr*)
Church, Mutual Obligations, Guilds
- b. Authority. Do what the king or dictator and their bureaucrats command. *Army; internal org. of corps; rules of EPA*
- c. The market. Follow your self-interest, subject to reasonable rules, with enforcement of contracts. *Flexibility; money markets; impersonal; individualist; laws, lawyers*

2. Three factors of production: Land, Labor, Capital

Land. Everything not produced by man, exemplified by but not limited to space on the surface of the earth.

Labor. Human effort devoted to producing goods and services, directly or indirectly.

Capital. Valuable human products that are not yet used up. Capital is formed by saving and investing, maintained by self-restraint, and kept in existence by perpetual reproduction (or turnover). *Capital migrates*

3. Triumph of Nationalism and Imperialism

We take nationalism for granted today, but most modern European nations barely existed before the 16th Century. Germany and Italy waited until the latter 19th Century, although Germany had been somewhat unified in the 16th Century before being shattered apart by the 30-years' war. Before that, Europe was linked by ① a common religious allegiance, centered in Rome; ② commercial leagues of cities; and ③ networks of powerful international banks.

Heilbroner's work focuses on the culture of our "mother country," England, and so does this course, but other unified

U.S., new kind of nation

nations in the 16th Century included Spain, France, Austria, Portugal, Russia, Turkey, Sweden, Poland, Switzerland, etc. ✓ England learned much from some of them, as Adam Smith brings out. Italian and German and Dutch influences were also strong, through their bankers and traders, Dutch imperialists, and German settlers. In the early 19th Century under Jefferson and his dynasty, French cultural and political influences were very strong; in the late 19th Century, German influences prevailed, especially in the universities. African influences have worked their way into the culture around great barriers, while their transition from slavery to voting citizenship has dominated much of American politics from the get-go. Ethnically speaking, Ireland and Germany (added together) contributed more to our gene pool than England. Since 1860, people have flooded to America from around the world, bringing with them traces, large or small, of their respective cultures. The melting pot has produced a distinctive American culture - sometimes for the better, sometimes not.

death of Byzantium, decline of Islamic power

✓ The loss of the Levant to Turkey, forced Europeans to look to the oceans, shifting the balance of power to the Atlantic nations, which responded by taking to the sea, where they found great new riches - part of them by conquest and robbery.

✓ England was unified politically by Henry Tudor (VII), 1485. Henry VIII and his daughter Elizabeth I consolidated it in the next Century. Having won over their domestic rivals they kept right on fighting, first taking over Ireland and Scotland, then continuing overseas. Expansive, imperialistic, emigrating Europeans gradually either settled or intruded into much of the world: N. and S. America, Asia, Africa, Australia, Oceania - only Japan, finally, avoided being violated, and even Japan was "opened up" by threat of naval action.

3 Revs: Political, Commercial, Industrial in 16th, 17th, 18th Cents

You know the rough outlines of the above from your basic history. Now here is something you may never have learned about.

4. The Enclosure Movement (Privatization of the land)

✓ In most early societies, both before and after the fall of the Roman Empire, many or most people enjoyed extensive common rights to land. In the near east, a sedentary culture, this took the form of periodic redistributions, and forgiveness of accumulated debts, e.g. the Hebrew "Year of Jubilee" described in The Bible (Leviticus 25). ✓ In the migratory Teutonic cultures it took more direct forms. In feudal times, nobles to survive had

to keep many retainers at hand and loyal, and to do so gave them land rights.

In and around 1346, The Black Death killed off nearly half the population of Europe. There followed a heightened competition to attract workers and retainers, soon resulting in a high level of real wages and the "golden age" of English (and other European) workers, lasting through the 15th Century. 19th Century historians, studying old records, were shocked to discover that the general standard of living was higher in the 14th Century than it had become by the 19th! (Read that again, to grasp its full meaning - it's astonishing.)

In the 16th Century, nation-building was accompanied by the enclosure (fencing) movement, i.e. privatization and engrossment of land. The kings abandoned the peasants, their traditional allies, and joined the nobles in dispossessing them. This was an ecumenical phenomenon: in England the Protestant Henry VIII was the leader, confiscating extensive Church lands in the process (lands whose income had constituted the welfare system of the nation); in Germany, the Catholic Charles V slaughtered 100,000 "Anabaptists" who claimed their traditional common rights to land.

Little Ice Age.

English nobles were spurred on by discovering expanding markets for raw wool. Sheep need lots of land, and few shepherds. With national unity, the nobles had less need for armed retainers and archers, so they evicted them: it was a huge power play. Thus, as Heilbroner writes, a new age was "born in agony" - a phrase to remember. The effect was something like the "downsizing" movement today.

The Puritans recreated this lost society, especially in New England in the 17th Century; so did the Quakers in Pennsylvania. The French did the same in Quebec, and the Spanish in a few areas like the mountains of northern New Mexico and southern Colorado (site of "The Milagro Beanfield War"), and Costa Rica.

3 For most Englishmen, though, Enclosure meant being uprooted and not replanted. It created three new classes: the landless proletarians; landowners newly freed from their traditional obligations to society; and a new class of industrial employers, e.g. those who hired the rootless workers to process the new supplies of wool.

Web.

The factory system, when it dev. also weakened, & then destroyed, previous system.
The process only began in England and Europe. As Europeans expanded around the world, they introduced the new concept of

of craft guilds. These had given skilled workers a kind of property in their métiers: land employers, using vast new supplies of cheap labor uprooted from their common lands, ed. undermined them in the market.

European land tenure and dispossessed natives everywhere. The privatizers were "equal opportunity" evicters, also fencing out proletarians of European descent, just as they had in Europe itself.

5. Rationalism and the Idea of Progress: a new attitude

Along with those tragic changes there were some good ones, too. The spirit of rationalism was growing, with its companions of science, invention, technology and exploration. The idea of progress, that we take for granted, gradually worked its way into common thinking. People came to accept change, and the guidance of reason. There grew a new faith, or hope, in the ability of the mind to unlock the secrets of nature, and apply the results to better our lot. New inventions accumulated - printing, the compass, mapping, clocks, paper mills, windmills, spinning wheels. They began to work together synergistically to accelerate the processes of change, and stimulate the minds of those who used them. The growth of commerce and cities speeded such progress, because cities exist to bring people together.

Rationalism came along with the growth of trade and the power of merchants. Conquering the open seas called for a much higher level of naval technology than would do in the sheltered Mediterranean world. Merchants need arithmetic and accounting to calculate profit and loss, and divide up the gains after winning them. The laws of accounting are much like the laws of physics: everything must be accounted for. Turnover of capital is much like metabolism in physiology. Science and accounting reinforced each other.

6. Speculation, good and bad

Trade entails speculation: one must sink money in a cargo, risk it on the high seas with their storms, pirates, pilferage, and, at the end, possibly bad markets. This kind of speculation is on balance productive, resulting in gains at both ends.

On the bad side, ill advised speculation sometimes led to cycles of boom and bust. Some early crashes were in 1619, 1640, 1670, and especially 1720, the end of the "South Sea Bubble" that followed the Peace of Utrecht (1713).

7. Need for understanding the new order

As Europeans moved into this new era, they tried to understand what was happening. There was a new mobility, new

ways of earning a living, loss of old forms of security, new kinds of misery to endure - what did it all mean, how did the pieces fit together? The old certainties and verities were dying; confusion reigned; what could one believe in now?

One group, the "bullionists," said the goal of a nation should be to import gold, or at least not go into debt and lose gold. An allied group, the "mercantilists," said that trade is a form of warfare, and a nation should control trade to maximize the national advantage over rival nations. While they were at it, many mercantilists favored keeping the poor poor, to provide cheap labor. Workers, of course, thought otherwise.

~~A.~~ The Mercantilists - Outline

(1) We begin by surveying the attitudes of the "Mercantilists." "Mercantilist" is a generic name for a loosely similar lot of writers on business and public affairs in western Europe, from about 1500 to 1800. They did not call themselves "mercantilists" - that was a later epithet - nor think of themselves as a group, but they shared many attitudes prevailing in the age when they wrote. This was the age of nascent nationalism, supplanting a previous age of agricultural feudalism, semi-independent city-states, and a unifying or mediating universal church with strong political powers.

undisputed the church before Nationalism - which was a search for a new universalism

Each mercantilist writer was likely to be pragmatic and focused on specific current issues, not seeking for philosophical generalizations, nor consistency, nor system. Their work was characteristic of that age of flux between the universalisms of the medieval church, and the later scientific universalisms of the Age of Reason. Hence, no single writer systematized all their thinking, as Aquinas did before them, and Adam Smith after them. Some of the many Mercantilists were Mun, Locke, Malynes, Child, Misselden, Serra, North, Davenant, and of course Colbert.

2. Mercantilism was the narrow business side of nationalism. The aim of each mercantilist was to grow and benefit his own state at the expense of others, without much apology to religion. The previous idea of a unified "Christendom" was discarded as an incubus. Indeed, even before nationalism there were mercantilists advising each city-state on how to gain at the expense of rivals and dependencies. The moral level was that of Machiavelli.

Mercantilism was more dynamic *flexible* than the feudalism that preceded it. It saw human economic relations, previously governed by inherited "status," becoming governed instead by "contract," terminable and renewable. Sanctity, once defined by the church, became a matter of contract and property. It saw nations being formed, and losers destroyed, and it relished the brawl (like later "social Darwinists"). Each nation needed more Lebensraum to populate and tax, in the form of colonies, fishing grounds, trade privileges, and even pieces of each other, so boundaries were in flux. Mercantilism was more dynamic than some of the classical and neo-classical economics that followed it, because it knew no concept of "equilibrium", let alone a permanent one such as envisioned in Mill's static state, or modern "green economists" concept of a sustainable equilibrium.

3. Here are some of the main tenets of Mercantilism.

a. The gains from trade are not mutual - one party gains what the other loses. It's a jungle out there! Hence, a nation as a whole does not gain by fostering domestic trade, for trade yields no net gain. It gains by regulating and controlling international trade to take advantage of other nations.

b. This rigging of trade takes at least three forms.

i. W.r.t. peer and rival nations, rig the terms of trade to favor the home nation: sell dear and buy cheap. One's own exporters should not compete against one another for the benefit of foreigners, but be organized in a monopoly. Importers, likewise, should be a monopsony.

ii. W.r.t. dependent nations and colonies, cast them as providers of raw materials for home manufacturers. This was the "policy of provision." Keep them away from tertiary activities like finance and insurance. Keep them from trading with other nations; force them to use shipping of the home nation. Establish social, financial and political ties with their major landowners, to control the lesser ones and keep them in orbit.

iii. W.r.t. the globe (i.e. the sum of all other nations) export more than you import, to build up gold reserves. This side of Mercantilism is "bullionism." Some Mercantilists equated gold with national wealth. Later critics of Mercantilism, especially Adam Smith, lampooned and overstressed this aspect of it, such that many students learn that it was the essence of Mercantilism. That is a caricature, however: most of them weren't that stupid. A determined critic can ferret out stupid sayings by individual members of any group, but that does not represent the best of the group.

Actually, a nation can use an export balance to build up assets abroad, and residents of successful Mercantilist nations became absentee owners of colonial assets on a large scale. Some of this was accomplished by force, but planting settlements took a lot of capital, too.

c. Mercantilists championed a modified individualism, featuring freedom from medieval church morality, but in alliance with the state. They had little faith in the free market, but rather in sheltered trading, banking, or landed privileges. In this respect they somewhat resemble the Whig Party of Henry Clay in America, and hence both the Republican and Democratic Parties

after the rigged "election" of Hayes as President in 1877 (for former Whigs then controlled both Parties). *Also today.*

(d.) Mercantilists gave high priority to military and naval power, to secure lands, and ocean routes, and privileged access to ports. The merchant marine and the navy were co-dependent. (James Monroe, John Quincy Adams, and Theodore Roosevelt would all have understood.)

(e.) Mercantilists were also "bullionists," who prized liquidity in a nation, both the quantity of gold it had, and the rate at which it circulated. They were tolerant of inflation, and even encouraged it, equating it with brisk trade and prosperity. In this respect they resembled later Keynesians.

Some of them were even concerned with full employment, and saw gold importation and inflation as means to that end. Lest they seem like champions of labor, however, read on.

(f.) Mercantilists championed low wage rates, privatization of common lands, and unequal distribution of wealth and income. They favored the enclosure and privatization of common and church lands, and their engrossment by a handful of royal favorites and Parliamentary leaders. This seems inconsistent with their concern for full employment, but remember, there was no consistent Mercantilist system or philosophy - Mercantilism was the product of many writers, riddled with contradictions (and, probably, hypocrisies and ruses). Also, like later Keynesians, they may well have wanted a way to keep the system working without challenging, or even examining, the basic distribution of property.

They favored low wage rates to aid exports without having to lower rents, and to use the labor supply fully without raising domestic consumption (i.e. without raising the demand for imports, and without diverting resources from exports to the domestic market).

(g.) Mercantilists were ambivalent and shifting about emigration of labor. As foreign land speculators and investors, they favored it, to populate their new ports and plantations. As home employers they opposed it, for it tapped into their labor pool. They generally resolved the dilemma by shipping off the more troublesome elements: jailbirds and religious dissenters, often as indentured servants, sometimes as convicts.

The Mercantilists, Questions and Answers

1. Economic philosophy before the Mercantilists was integrated into a grand, definitive synthesis by St. Thomas Aquinas, and after them by Adam Smith. What, if any, Mercantilist did the same for Mercantilistic philosophy?

None. Each Mercantilist writer was likely to be pragmatic and to focus on specific current issues, not to seek for philosophical generalizations, nor consistency, nor system.

2. Was Mercantilism in conflict with nationalism?

No. Mercantilism was the narrow business side of nationalism.

3. Was Mercantilism static or dynamic?

Mercantilism was more dynamic than the feudalism that preceded it. It saw human economic relations, previously governed by inherited "status," becoming governed instead by "contract," terminable and renewable.

4. Was Mercantilism a "good neighbor" policy?

No. The aim of each Mercantilist was to grow and benefit his own state at the expense of others. In their view, the gains from trade are not mutual - one party only gains what the other loses. It's a jungle out there!

There are echoes of this today in the attitude of the OECD (Organization for Economic Cooperation and Development), a powerful supranational body to which some countries have yielded parts of their sovereignty. The OECD believes that nations that compete to attract foreign capital are engaged in a "harmful" activity, and should be checked.

5. In what three ways would Mercantilists have a nation rig its international trade?

i. W.r.t. peer and rival nations, rig the terms of trade to favor the home nation: sell dear and buy cheap.

ii. W.r.t. dependent nations and colonies, cast them as providers of raw materials for home manufacturers. This was the "policy of provision." It is what triggered off the American Revolution.

iii. W.r.t. the globe (i.e. the sum of all other nations) export more than you import, to build up gold reserves. This side of Mercantilism is "Bullionism."

6. What is the relationship of Mercantilism to "Bullionism"?

See #5, iii, above.

7. The shift from Feudalism to Mercantilism was a change "from status to contract" as the governor of human relations. Explain what that is supposed to mean.

Mercantilism saw human economic relations, previously governed by inherited "status," becoming governed instead by "contract," flexible, voluntary, terminable and changeable.

Extra credit: explain how the above overstates the changes that actually occurred.

"Sanctity," once defined by the church, became an attribute of contract and property. Property in land was inherited, passed on for centuries, protected, and venerated like an icon.

8. Did the Mercantilists consistently favor individualism?

Mercantilists had little faith in the free market, but rather in sheltered trading, banking, or landed privileges. In this respect they somewhat resemble the Whig Party of Henry Clay in America, and hence both the Republican and Democratic Parties after the rigged "election" of Hayes as President in 1877 (for former Whigs then controlled both Parties).

9. Were the Mercantilists "hawks" or "doves" in foreign affairs?

Mercantilists gave high priority to military and naval power, to secure lands, and ocean routes, and privileged access to ports. They were constant hawks, inclined to assume that warfare and conflict are the natural human condition.

10. Where did Mercantilists stand on the rights of labor?

Mercantilists championed low wage rates, privatization of common lands, and unequal distribution of wealth and income. They favored the enclosure and privatization of common and church lands, and their engrossment by a handful of royal favorites and Parliamentary leaders. They favored low wage rates to aid

exports without having to lower rents, and to use the labor supply fully without raising domestic consumption (which would raise imports).

11. Did Mercantilist philosophy fit in well with the 18th Century "Age of Reason"?

No. The ad hoc policies and inconsistencies of Mercantilism were not good enough for the Enlightenment. Physicists, biologists and chemists were popularizing new thinking that linked complex details into systems, unified by a few general principles. This is one reason that Mercantilism gave way to "classical political economy," which we study next.